

Market Monitor – Europe

Renewed moderation in growth momentum

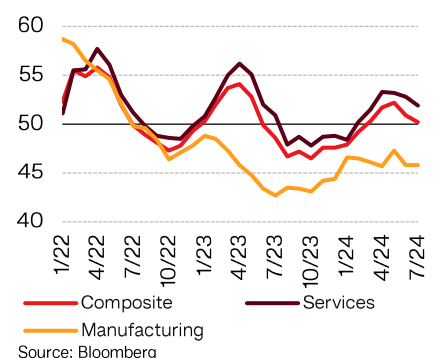


- The growth momentum of the Eurozone moderated again, while the UK economy expanded solidly in Q2.
- The pace of disinflation has progressed slowly for both the Eurozone and the UK, as service inflation stayed elevated.
- The ECB left its policy rate unchanged, while the BoE delivered its first rate cut since March 2020.

Renewed moderation in growth momentum

Growth momentum for the Eurozone economy is decelerating. The Eurozone composite PMI dropped from 50.9 in June to 50.2 in July, falling for two consecutive months. In July, the service PMI declined by 0.9 points to 51.9, while the manufacturing PMI remained unchanged at 45.8, matching the year-to-date low seen in June. Manufacturing PMI has stayed in contraction for 25 consecutive months, while service PMI recorded the slowest pace of expansion since April 2024. Among the key member states, Germany and France continue to underperform against the regional average. Germany's composite PMI dropped from 50.4 in June to a contractionary 49.1 in July. Meanwhile, France's composite PMI recorded a slight improvement, rising from 48.8 to a still contractionary 49.1 in July, probably due to the removal of the election overhang. Besides, Spain and Italy continued to benefit from their strong services sector performance and consistently stayed in expansionary territory. Nevertheless, the Eurozone composite PMI being above the boom-bust dividing level still points to a modest expansion of its economy in the beginning of Q3.

Eurozone Purchasing Managers' Index



Economic Research

The UK economy is on course for solid expansion in Q2. After staying flat in April 2024, the UK GDP rebounded notably and grew by a notable 0.4% month-on-month (MoM) in May, doubling market expectations of 0.2%. The latest figures put the UK on course for another solid quarter of expansion, after seeing a 0.7% GDP quarter-to-quarter (QtQ) expansion in Q1 2024. The upside surprise came from a weather-related rebound in construction and stronger services output, with construction, services, and production increasing by 1.9%, 0.3% and 0.2% MoM, respectively, following -1.1%, 0.3% and -0.9% in the previous month. Besides, the UK PMIs indicated an improving growth momentum for the economy, as the composite, manufacturing and services PMIs all rose 0.5, 1.2, and 0.4 points to 52.8, 52.1 and 52.5 in July, respectively. The composite and service PMIs have stayed in expansionary territory for 9 consecutive months, while the manufacturing PMI reached the highest level in 2 years. Nevertheless, it is worth monitoring what the impact of the latest protests will be on business sentiment and the growth momentum ahead.

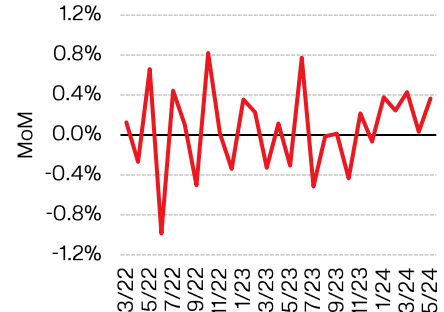
Disinflation progress remains slow

Inflation unexpectedly edged higher in the Eurozone. The Eurozone's headline CPI edged 0.1 percentage point (ppt) up to 2.6% YoY in July, while core CPI was flat at 2.9%. Both readings were higher than the market forecast. Services inflation remained high at 4.0% YoY, even after a 0.1 ppt slowdown, which was offset by a 0.1 ppt acceleration in core goods inflation to 0.8%. Food, alcohol and tobacco prices eased 0.1 ppt from 2.4% YoY in June to 2.3% in July, while energy prices accelerated notably from 0.2% YoY in June to 1.3% in July, marking the fastest pace of increase in the past 15 months as the low comparison base impact is fading. With the slowdown in core goods likely coming to an end, the burden of future disinflation progress will fall on services inflation, which is likely to take time amidst a resilient labour market. The unemployment rate in the Eurozone stayed fairly low and only ticked up mildly from an all-time low of 6.4% in May to 6.5% in June.

Another upside surprise in the UK's services inflation. The UK's headline and core CPI inflation rates held steady at 2.0% and 3.5% in June, respectively, both registering a touch higher than market expectations. On a MoM basis, headline and core inflation decelerated from 0.3% and 0.5% in May to 0.1% and 0.2% in June, respectively. The largest upward contribution to YoY growth in headline inflation came from restaurants and hotels, which saw a 6.2% YoY increase in June, up from the 5.8% growth seen in May. Such growth is almost entirely attributed to the 8.8% increase in hotel prices. Overall, services inflation remained unchanged at an elevated level of 5.7% in June, far higher than the Bank of England's (BoE) forecast. On wage growth, regular earnings, excluding bonuses, saw a 5.7% YoY rise in the three months to May 2024, decelerating from the 6.0% growth seen in the three months leading up to April, marking the slowest growth since September 2022. Both services inflation and wage growth still notably outpaced the BoE's 2% inflation target. Attaining a persistent deceleration in wage growth is vital for further disinflation progress towards the policy target.

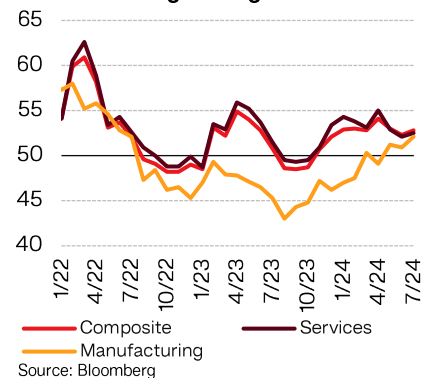
August 2024

Monthly UK Gross Domestic Product



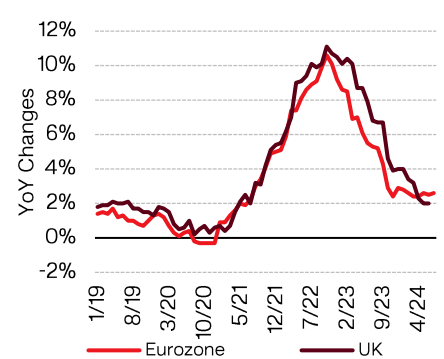
Source: CEIC

UK Purchasing Managers' Index



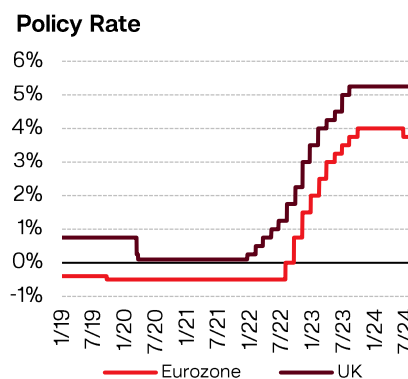
Source: Bloomberg

Inflation Rate



Source: CEIC

The ECB left rates unchanged and kept on data dependency mode. As widely expected, the ECB unanimously decided to keep its deposit facility rate unchanged at 3.75% in its July monetary policy meeting. Even though the post-meeting statement noted that domestic price pressures are still high, with services inflation elevated, headline inflation is likely to remain above the ECB's target well into 2025. They also said that the incoming inflation broadly supports their previous assessment of the medium-term inflation outlook. In the post-meeting press conference, ECB's President Lagarde said the decision on September is wide open and that they didn't want to pre-commit themselves. They will follow a data-dependent and meeting-by-meeting approach to decision-making, while data dependency does not mean data point dependency.



The BoE delivered its first rate cut since March 2020. The BoE's Monetary Policy Committee (MPC) has voted 5-4 to cut the Bank Rate by 25 basis points (bps) to 5.00%. The BoE remains cautious about promising too much for future rate cuts. BoE Governor Bailey said that stronger growth and still high underlying inflation mean they need to be careful not to cut rates too much or too quickly. Despite the BoE's latest forecasts showing inflation will accelerate in 2H 2024 against a low comparison base for energy prices, they expect inflation to fall gradually and dip below target in two to three years' time. This implies that if inflation risks moderate further, the BoE could cut more quickly than the market's pricing.

European stock markets and currencies soar in July

The lifting of political overhangs sent equities higher. In July, both France and the UK held their parliamentary elections. The removal of election uncertainty helped improve investors' sentiment and bolster stock market performance. In particular, the UK FTSE 100 index, the German DAX index, and the French CAC index recorded 2.5% MoM, 1.5%, and 0.7% higher in July, respectively. Besides, sticky inflation in both the Eurozone and the UK also boosted their currencies, as the Euro and British pound saw a MoM appreciation of 1.1% and 1.7%, ending July at US\$ 1.0826 and US\$ 1.2856, respectively.

Disclaimer

This material is prepared by The Bank of East Asia, Limited ("BEA") for customers' reference only. The content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are expressed solely as general market commentary, and do not constitute an offer of securities or investment, nor a solicitation, suggestion, investment advice, or guaranteed return in respect of such an offer. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This material has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this material, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down, and may become valueless. Past performance is not indicative of future performance. The investments mentioned in this material may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this material. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

This material is the property of BEA and is protected by relevant intellectual property laws. Without the prior written consent of BEA, the information herein is not allowed to be copied, transferred, sold, distributed, published, broadcast, circulated, modified, or developed commercially, in either electronic or printed forms, nor through any media platforms that exist now or are developed later.

For more information, please visit our webpage at <https://www.hkbea.com/html/en/bea-about-bea-economic-research.html>. For any enquiries, please contact the Economic Research Department of BEA (email: lerd@hkbea.com/telephone number: (852) 3609-1504/postal address: GPO Box 31, Hong Kong).